MACRO ECONOMICS

(Module-II)

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<<< PREFACE >>>

I take the opportunity of making my first attempt to bring out my first small book, on "MACRO ECONOMICS". I hope this book will extend support and be of immense help to everyone who reads it.

This book has been composed of points on Macro Economics from books of other famous writer and some of my personal efforts.

I have tried my level best to present the entire text in such a manner that the topic can be easily understood by readers and clear all their doubt.

In conclusion, I express my heart-felt thanks to all who helped me in my efforts in bringing out this book. I thank everyone for their cordial co-operation.

Howrah

- Ujjwal Kumar Jha

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Update

(i) Pre–dominance of Agricultural Sector:
49%* of population is dependent in agriculture (2013– 14). There has been increase in absolute number of people engaged in agriculture where decline in
absolute number of cultivators. This is an indication of shift from Farm to Non-Farm employment.

(ii) High Growth Rate of Population: The Dependency ratio is nearly 57.5% of the population is
below 15 and above 64 years of age, compared with developed countries where it is much less.

(iii) Low per capita income & low savings: India's per capita income $ 1420* in 2011 & $ 1499* in 2013

(iv) Low Gross Capital Formation:

(a) The Gross Domestic Savings is generally low at 34% (2010-11) and 30.1%

in 2012-13.

(b) Because of Low Gross Domestic savings, the Gross Domestic Capital Formation is also reduced
from 36.5% (2010-11) to 34.8% (2012-13).

(v) Low Standard of Living of People: The Human Development Index of India was 136* out of 187 Countries in 2013.
(vi) As per 68th Round of NSSO unemployment rate is 5.6 (CDS) in 2011-12.

Human Development Index Rate: 2012 – 0.554 India's Gini Index in now 0.334 (2011-12) which was more favorable than those of comparable countries- South Africa – 0.631, Brazil – 0.547, Thailand– 0.40.

(i) Rise in National Income:
India's National Income has increased by more than 18 times, since independence.
The National Income in 2013–14 – ` 50,00,000 Crores @ Constant Prices.

(ii) Rise in Per Capita Income: Per Capita Income has increased by more than 4.5 times, since
independence. The Per Capita Income 2013–14 – ` 39,904 @ Constant Prices.

(iii) Changes in Occupational Structure for 2009-10: is primary sector – 48.9, secondary sector – 24.3, Tertiary Sector – 26.9.

(iv) Contribution to GDP (2013-2014(p)): Primary sector – 13.9%, secondary sector – 26.1%,
Tertiary Sector – 59.9%.

(v) Social overheads: Education–Number of primary educational institutions has quadrupled number of
middle & senior higher secondary school has increased 23 times.

(i) Agriculture Share in GDP: 14%*(Constant Prices) in 2011–12

(ii) Employment : Around 49%* of the population was engaged in

Agriculture

(iii) Foreign Trade:
(a) In 2013-14, Agricultural Exports formed about 12%* of National Exports, and Imports less than
3%* of National Imports.
(b) Special Schemes like Special Agricultural Product scheme to promote exports of Fruits,
Vegetables, Flowers, Dairy and Forest Products.

(i) Improvement in Production & Productivity:

*Agricultural Production over last 6 decades has increased by more than 4 times.

*Wheat production had increased by 8 times in 2011-2012 and productivity increased to 3059 Kg
per Hectare in 2013-14. Thus Green Revolution is largely called as Wheat Revoluti

*Compounded growth rate of Foodgrains production has deteriorated to 2.32% (2000 - 2012).

*Per Capita availability of Foodgrains has improved to 511 gm in 2013.

*The productivity of Foodgrains has improved to 2095 kgs per hectare in 2013.
(ii) Modernization:

*The Indian council of Agricultural Research (ICAR) is the apex body for coordinating, guiding &
managing research and education in agriculture including Horticulture, Fisheries, & Animal sciences.

*ICAR has enabled the country to increase food grains production by 4 times, horticulture by 6 times,
fish by 9 times, Milk by 6 times and Eggs by 27 times since Independence.

(iii) Other Developments:
*Modified National Agricultural Insurance Scheme and Weather based Crop Insurance Scheme – To
Insure Farmers against Crop Loss and Loss arising out of Bad Weather.

*The Technology mission on Oil Seeds and Oil Palm(TMO & OP) has been introduced in 12th Plan to
increase Domestic Production of Edible Oilseeds/Oil.

(i) Use of Primitive Methods:
**HYVP was initiated on small area which is just 44% of gross cropped area. The benefit of new
technology is confined to this area only.

* About 55% of net cropped area is rain fed and no dry farming techniques. To address the
problem faced by farmers especially small and marginal farmers, Rainfed Area Development
Programme was launched.

* Only 45% of net cropped area has irrigation facilities. The irrigation sector requires a renewed
thrust both in terms of investment as also modern management.

* The current level of Farm Mechanization is at 25% is very low as compared to about 90
% in developed countries.

(ii) Problems in Warehousing: The National Policy for Farmers, 2007 is being adopted by the Govt.
*Major Policy provisions include: Provisions for Asset Reforms, water use efficiency, use of technology,
inputs and services, good quality seeds, disease free planting material, credit insurance etc.

(iii) Food Corporation of India (FCI) is the nodal agency for procurement, distribution, storage of
food grains.

(i) Employment: In 2013-14 24.3%* of the population is employed in the Industrial Sector.
(ii) Share in GDP: Industry contributes about 26%* in (2013-14) of the country's National Income.
(iii) Strengthening the economy:

*The growth of Industries producing Capital Goods and strengthening the infrastructure,

* Improvement in production of economics Infrastructure Goods like Railways, Dams etc which are Non-
Importable,

* Agriculture sector gets improved Farm Implements, Chemical Fertilizers and Transport, Storage facilities
from Industrial Sector.

* Dependence on Importing Defense Materials is risky; hence Industrialization helps a country to become
Self Reliant in Defense Materials.

* 12th plan aimed at growth rate of 9.6%, but the performance was not encouraging i.e for 2012-13 was
1% and 2013-14 was 0.4% annually.

*****Modernization: Implementation of Delhi-Mumbai Industrial Corridor (DMIC) project (developing eight
industrial cities along the railway corridor). It allows FDI in more industries under automatic route, and setting up e-Biz project to promote the ease of doing business. Till 2013-14, 16 National Investment And Manufacturing Zones (NIMZ)had been announced of which 8 are along DMIC.

*Growth of Public Sector: In March 2013, number of CPSE's increased to 277 with a cumulative investment of ` 8, 50,000 crore. Out of 277 CPSE's 229 were in operation, 149 earned profits and 79 earned losses in 2012-2013. Few drawbacks are Low Profitability, Higher Under

Utilization of Capacity,
Low Efficiency, Over Staffing, Political Interference etc.

*Growth of SSIs and Cottage Industries:
*In 2011-12 the number of registered and unregistered small scale units shall be more than 45
millioN –Creation of Employment Opportunities, i.e. about 100 million persons in 2011 – 12 of the total
industrial employment.

*The Investment Output Ratio of SSI sector is almost at par with large scale industries.

(i) Inadequate Employment Generation: The process of industrialization has failed to make a marked dent on the unemployment problem in India. Even today less than one fourth of the working population is engaged in Industrial Sector. As per the Annual survey of Industries 2010-11, the absolute number of persons employed in factories has been increasingly every year since 2004-05.

(ii) Poor performance of Public Sector: There are 79 numbers of loss making enterprises in 2012-13.

(iii) Regional Imbalances: Large Scale Industries are concentrated in a very few States like Tamil
Nadu, Maharashtra, Andhra Pradesh and Gujarat. These 4 states account for 50% of Total Factories
and 50% of Productive Capital

(iv) Losses & Industrial Sickness:
* According to RBI an enterprises is considered as sick if (a) any of the borrowal account of
enterprise remains NPA for 3 months or more or (b) there is erosion due to accumulated losses to
the extent of 50% of its Networth during previous accounting year.

In 2013, 2.5 Lakh units were sick of which more than 90% were small and medium enterprises.

(i) Share in GDP: In 2013–14 the share of Service Sector to the GDP = 60%*.
(ii) Employment: Around 27% (2011–12) of the working population is in the Service Sector.
(iii) Foreign Trade:
(a) India's share of services exports in the world exports of services increased from about 1% in
2000 to 3.3 % in 2011.
(b) Services account for around 1/3rd of total exports of India (2012-13).
(c) Software and other services such as Business, Technical and Professional Services have emerged
as the major categories in India's export of services.
(d) Indian services exports recorded a growth of more than 20 % p.a (2001-13). However, due to
uncertainty in the global economy and weak growth in advanced economies, services export
showed a lower growth of less than 5 % in (2012-13).
(iv) Average growth rate achieved during 11th Plan: The actual growth rate of service sector for 2012–13 and 2013–14 was 7% p.a. Transport, Storage, Communication – 12% p.a., Financing,
Insurance, Real Estate, and Business Services – 11% p.a. India has the third largest scientific and technical manpower in the world.

(v)Factors underlying the Services Sector Growth: The Services sector has grown at a fast rate in India due to the following reasons:
(a) The Income Elasticity of Demand for Services is greater than one. Hence, the Final Demand for services grows faster than the demand for goods and commodities as Income Rises.
(b) Technical and structural changes in the economy have made it more efficient to outsource certain services that were once produced within the industry.
(c) With the advent of the information Technology revolution, it has become possible to deliver services over long distances at a reasonable cost, thus trade in services has increased worldwide. India has been particular beneficiary of this trend.
(d) Economic reforms initiated since 1991 also impacted on the performance of the services sector.
Increased demand for manufacturing industry provided synergies to the services sector.
Also, liberalization of financial sector provided an environment for faster

growth of the financial
services. Moreover, reforms in certain segments of infrastructure services also contributed to the
growth of services.
*Employment: Thought the Service Sector has been the fastest growing sector in the last decade and
contributed more than 60%* of the GDP, it provides less than 27% of the Total employment.
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*Tax revenues form about 17% (2012-13) of the Total National Income of India.
* Tax revenues in 1950-51 – ` 460 Crores and 2012-13– ` 17,18,000 Crores*. ·
*Direct taxes contributed 7% of the GDP in 2012-13.
·
*Ratio of share of Direct and Indirect taxes = 39:61 (2012–13)

Major tax contributors for 2012-2013

Corporation Tax : 34.4 %

Excise duties : 17 %

Personal Income Tax : 19 %

Customs duties : 16 %

Service Tax : 12.8 %

Land Revenue and Sales Tax were important sources of state revenue.

Trends in National Income Growth:

(a) The compound annual growth rate for GDP at factor cost, over the decade ending 2012-13 is 7.9 %.
(b) Per capita income increased at an average rate of 6.3 % p.a during the 11th plan.

(c)The Performance of a country can be judged in a two ways- by

comparing its performance with other
countries and by comparing its performance with the targets set by it.
(d) India now ranks among the top ten fastest growing countries in the world along with China, Vietnam,
South Korea, Malaysia, Thailand, Singapore, among others.
Birth & Death Rates: Death rate was 7 *, and Birth rate was 21.6* in 2012.

(a) Kerala has Lowest Birth rate at 14.9, Bihar has Highest birth rate at 27.7 (2012)
(b) West Bengal & Maharashtra has Lowest death rate at 6.3 each and Orissa has Highest death rate at
8.5 (2012).
(c)Sex-ratio: 943 Females to 1000 Males in 2011. Haryana has the lowest female sex ratio of 879* in 2011.

(d)Life Expectancy at Birth: Kerala has highest life expectancy at birth reporting to 71.4 years
Literacy Ratio: The Literacy rates among other states as follows:

Himachal Pradesh : 76%

Tamil Nadu :74%

Uttar Pradesh : 59%

Goa : 82%

Maharashtra : 75%

Rajasthan :53%

*Effects of Population Growth:
Burden on Food supply: The Per Capita availability of Food Grains increased from 395 grams to 463
grams signifies very small increase.

*Unemployment: it is projected that total labour force would increase by

24.5 million in 12th plan.
Notes:

(a) Reducing MMR to below 1 per 100,000 live births.

(b) IMR in India is highest for Madhya Pradesh (62) and Lowest in Kerala (13).

(c) 12th plan aimed at achieving IMR at 25 & MMR at 100 by end of the plan.

*Poverty in India: These cutoffs were used by converting them in to current rupees using Implicit Price Deflator of consumption in the National Accounts. Disadvantages are- ignoring interstate differences in price levels as well as variations from state to state in urban to rural price differentials.

(i) SJSRY- A total of more than 8,00,000 beneficiaries have been assisted in 2013-14. This was replaced by
National Urban Livelihood Mission (NULM) (2013), it focusses on urban poor in self help groups.

(ii) SGSY- NRLM has been renamed as Aajeevika. It aims to enable poor households to access gainful
self-employment & skilled wage employment opportunities. In 2013-14, more than 4.78 lakh
households have been assisted.

(iii)MGNREGS- During 2013-14, more than 4.78 Crores household were provided with employment.

(iv)Planning Commission Estimates of Poverty: Tendulkar Committee reported based on
Household Consumer Expenditure Survey (HCES)(2011-12)

*National Poverty Line: Monthly per capita Expenditure (MPCE) Rural Rs. 816, Urban Rs. 1000.

*In 2011-12, Poverty Ratio was 21.9% which was declined from 37.2% in 2004-05. 40% of
children below 3 years were under weight and Mal Nourished (43% in 1998-99).

*Human Development Report (HDR) 2010, estimates poverty by way of Multi-dimensional Poverty
Index. (MPI) showing poverty Index of 0.283.

*Accordingly 22% of people are below poverty line (2011-12).

(1) Overall Unemployment Rate in India is about 8.8%, as per CDS definition.
(2) Unemployment Rates on CDS basis (5.6)are much higher than those on US basis (2).
(3) Recent Approach of Govt to solve problem of unemployment:
(a) Formulation of National Policy on Skill Development during Eleventh & Twelfth plan.
(b) It gives more importance for improving skills in manufacturing sector includes – Agro
processing, Supply chain, Rural Infrastructure Services,
(c) Indentified priority sector for employment generation & Skill Development includes Textiles
and Garments, Leather and Footwear, Gems and Jewellary, Food Processing Industries,
Handlooms and Handicrafts, Machine Tools, IT Hardware and Electronics, Telecommunications
Equipment, Aerospace Shipping, Defense Equipment etc.

(1) Energy Position in India:
(a) 6th largest energy producer accounting for 3% of world's Total energy production,
(b) 4th largest energy consumer after china, USA, Russia accounting for 5% of World total energy

consumption.
(c) Over a period of 63 years there has been more than 100 times increase in installed capacity.
(d) Energy obtained from Hydro-17, Thermal-69, Atomic Energy [Nuclear-2, Wind, Biogas, waste etc-12] -14.

(2) Participants in Energy Sector:
(a) The ministry of Power is responsible in planning and implementing India's Power sector policy.
(b) The Central Electricity Authority (CEA) advises the central government on long-term and short term policy planning.
(c) The Central Electricity Regulatory commission and State Electricity Regulatory commission set generation and transmission policies.
(d) Private Participants are Reliance Power, Tata Power and ESSAR power and share of private sector towards state run generation capacity is on the rise.

(1) Demand and Supply Imbalances in inputs: The demand for primary commercial energy (oil, natural gas, LNG, Coal, hydro) at the end of 2016-17 was 750 million tones of which 36% of the demand was met through imports. 12th plan aimed for growth of energy supply will have to grow at 6.5%p.a.
(2) Rising Oil prices: From 1973-2014, OPEC (Organisation of Petroleum Exporting Countries has increased the prices many folds.
(3) Balance of Trade Gap: India's oil import Bill has increased substantially more than `10,00,000 crores (2013-14). Petroleum, Oil and Lubricants (POL) constitute 37% of India's Import Bill.
(4) T&D Losses: T&D Losses (including theft of power) are very high at about 20%

(5) Operational Inefficiency:

*PLF of Thermal Power Plants has reduced to 65% (2013–14).

*On an average, the PLF of SEBs, Central Sector and Private Sector are 65%, 79% and 79%
respectively*(2012-13).

*PLF is lowest in eastern region at 62% & highest in Southern region at 81% (2012-13).

(1) PLF Improvement: Identify 26 Thermal Stations with less than 60% PLF
(2) Private sector participation: In 2013, the Government has allowed Automatic Approval (RBI) route
for 100% Foreign Equity in Generation, Transmission And Trading in the power sector.
(3) Rural Electrification: 'Rajiv Gandhi Grameen Vidhyutikiran' Programme was started in 2005.

* It aims to provide Free Electricity connections to Below Poverty Line (BPL).
* Under this scheme more than 1 Lakh Villages & 200 Lakh BPL Households were electrified.

(4) Nodal Agency: Rural Electrification Corporation is acting as nodal agency for electrifying villages.

(1) Features/Advantages/Merits:
Indian Railways is Asia's largest and world's 4th largest rail network under a single management.
Indian Railways – Total route length of Railways 64,600 Km of which 21,000 Km are Electrified.
During 2012 – 2013, it carried more than 8400 Million of passengers and more than 1 Billion Tonnes
of Freight Traffic.

(2) Steps taken: Railway is trying to improve Resource Management. Rational Price Policy increased
Wagon Load, Faster Turnaround Time, Public Private Partnerships (PPP), and Double Line Freight

Corridor for efficient Freight movements.
(3) 12th plan: It aimed for construction of 6 dedicated Freight Corridors, Segregation of Freight and Passengers lines, providing improved connectivity to Industry Cluster and Ports, Creation of Additional Capacity, Modernization and overall improvement in Productivity.

1. Indian Road Network is one of the largest in the world, India has 4.69 Million km network,& 80%* of Passenger Traffic and 65% of freight.

2. A new scheme "Pradhanmantri Bharat Jodo Pariyajana" arise to connect are major cities by four lane highways.

3. Govt undertook Pradhan mantra Gram sadak yojana (PMGSY) to recognize Rural Connectivity

4. Govt identified Rural roads as one of the Six components of "Bharat Nirman"
(a) Almost 95% of India's global merchandise trade is carried through sea route.
(b) The 12 Major Ports carry about 57% of the total traffic, about 555 Million tonnes (2013-14). It has 200 minor ports.
(c) The fleet at end of March 2013 was 1186 vessels (1 % of World Fleet).

(1) Operational: There are 10 scheduled passenger operators (Three in Public sector- Air India Ltd, Air ,India Charters Ltd. and Airlines allied services and seven in Private Sector) and three cargo operators in the country with the combined fleet size of 413 aircrafts. The Market share of private sector in Domestic Traffic during 2012 is more than 82%.

(2) Infrastructural: AAI is the main organisation managing 125 airports across the country. AAI is upgrading & modernizing 35 Non-Metro Airports in Country. During 11th plan, GreenfieldAirports of International Standards are also constructed at Hyderabad, Bangalore and Goa & Modernization of Kochi, Mumbai, Delhi International Airports.

(3) Regulatory / Developmental:

(a) The Airport Economic Regulatory Authority (AERA) was established in 11th plan to safeguard
interest of users & service providers at Indian Airports.

(b) The Domestic Air Transport policy approved by the Govt provides for Foreign Equity participation
up to 49% and investment by Non-resident Indians (NRIs) up to 100% in the Domestic Air
Transport Services.

(c) Government has permitted up to 49% Foreign Direct Investment (FDI) by Foreign airlines in Indian airline companies.

*Today, there are more than 1.55 lakh post offices out of which around 90% are in rural areas.one post office serves 7175 persons.

(i) Telecommunication Services in India: India's Telephonic Network, with Tele-density (number of
phones per 100 persons) of 75.23%. Tele density in rural areas is 44% and urban is 145% (March 2014)

(ii) The growth of telecommunications since independence , had more than 935 million connections (wireless and Wire line –March 2014)

(iii) FDI Limit increased to 100% from 74%

(iv) 12th Plan aims at- Provision of 1200 Million connections by 2017.

*Mobile access to all Villages and increase rural Tele-density to 70% by 2017.

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*Broadband connection of 175 million by 2017.

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*Commissioning of National Optical Fiber Network (NOFN).

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*Making India a Hub for telecom equipment.

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*Provide preferential market access for indigenously manufactured products.

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*To increase domestic manufactured products in telecom network to the

extent of 60% with
value addition of 45% by 2017.

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*Adoption of Green policy in telecom and incentivize use of renewable energy sources.

(i) Trends in Health Services: Particulars Year 2012 Health Centers 1,77,248 Dispensaries + Hospitals 63,002 (Govt +AYUSH) Beds 11,75,374 (2008 year) Nursing Personnel 18,94,968 (2010)
Doctors (Modern) 8,83,812 The number of doctors has increased by about 14 times increased to 9 lakhs in 2012. The bed population ratio has increased tom 1.03 per 1000 population.

(ii) Focus of Health Development Programmes:

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*In 2013, National Health, mission was launched subsuming National Rural health mission
and National Urban health mission.

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*To reduce MMR, Janani Suraksha Yojana was started.

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*Integrated Child Development Services ,Rajiv Ghandi scheme for empowerment of Adolescent
Girls –Sabla for improving health services in India

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*Pradhan Mantri Swasthiya Yojana was launched with objectives of correcting regional
imbalances.

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*12th plan emphasizes the need to have a Universal Health Coverage (UHC) for all in
the Country.

(iii) Weakness of Indian Health Care:

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**Inadequate availability of health care services:
(a) The number of Doctors per Lakhs of population was only 45 whereas desirable number of
doctors is 85.

(b) The number of Nurses and Auxillary Nurse and Mid Wifes (ANMs) available was only 75
per Lakhs population whereas the desirable number is 255.
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**Quality of health care services: many practitioners in the private sector are actually not qualified
doctors and there is no proper check on them.
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**Affordability of healthcare is a serious problem for the vast majority of the population Unequal distribution of existing Health Institutions and Manpower Lack of an Appropriate Referral System.

(1) NPE has set a goal of expenditure on education at 6% of GDP where the actual it was 3.3% (2013-14).
(2) Educational services - steps and schemes:
(a) Sarva Shiksha Abhiyan (SSA) -
Till sep 2012, opening of more than 3 lakh new schools, construction of more than 2.8 lakh
school buildings 16 lakhs additional classrooms, supply of free text books to 8.3 crores children
and training of 12.5 lakh teachers.
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The number of out of school children has come down from 134.6 lakh (2005) to 81.5 lakh (2009).
(b) National Literacy Mission (NLM) recasted in to Saakshar Bharat (SB) (2009):
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To attain a sustainable Literacy Rate of 80%.

* Saakshar Bharat (SB) is a continuing programme for lifelong learning and literacy support system
for the country.
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*SB gives focus on Young adults and out of school adolescents (15 - 19 years). By 2017, it strives to
achieve literacy rate to 80% and reduce gender gap to less than 10%.
(c) Rashtriya Madhyamik Shiksha Abhiyan (RMSA)(2009):
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To enhance secondary education and improving its quality.

* National scheme of incentive to Girls for Secondary Education (NSIGSE).

Inclusive education for the disabled at the secondary stage (IEDSS).

(d) Rashtriya Uchchatar Shiksha Abhiyan (RUSA) has been launched to strengthen and reform higher education.

(e) Gross Enrolment Ratio (GER) has increased progressively from 32.1 in 1950-51 to 104 in 2013.

(f) According to UNESCO India has more than 1 Million out of school children which has come down from 8 million in 2009.

*** Consumer Price Index (CPI): In the Financial Year 2011-12, the gap between WPI (9.14 per cent) and CPI (8.4 per cent) has significantly narrowed down due to a fall in food inflation.
** Increase in Public Expenditure: Public Expenditure refers to Government Expenditure on non- developmental activities (28% of GDP (2012–13) at Current Prices)
Fiscal Deficit in India: Fiscal Deficit fell down to 4.9% of GDP in 2012–13, estimated to reduce in 2013–14 to 4.5%.

Achievements in 10th Plan:
(i) Foreign Direct Investment (FDI) how ever declined to US $ 292 billion at March 2013 but increased to 304 billion (March 2014). During 2011-12 Net FDI recovered and reached was US $ 22 billion.

(ii) India's Foreign Exchange reserves comprise Foreign Exchange Assets (FCA), Gold, Special Drawing Rights (SDR's) and Reserve Tranche Position (RTP) in the International Monetary Fund (IMF).
(a) Foreign Exchange Reserves: When there is volatility in Exchange Rate

RBI may increase or decrease the level of Foreign Exchange Reserves. It means RBI may sell or purchase of Currencies with the aim of changing exchange rate or Rupee or more currencies.
For Eg: When there is too much demand for Dollar, the value of dollar appreciates and Indian
rupee will depreciate, hence RBI releases Dollars from its reserves in the market to stabilize
the exchange rate. On the other hand RBI purchases Dollars from the market in case of
appreciation in the value of Indian Rupee.

(b) Special Drawing Rights:
It was created in 1969 by IMF to supplement a shortfall in preferred Foreign
Exchange Assets.

*SDR is neither a currency nor a claim on the IMF. SDR is redefined as a basket of
currencies, consisting of Euro, Japanese Yen, Pound sterling and U.S.Dollar. This Basket shall be reviewed every Five years.

* SDR's are allocated to Member Countries by IMF. A Country's IMF Quota, the maximum amount of financial resources that it is obligated to contribute to the fund, determines its
allotment of SDR's.

(c) Reserve Tranche Position: The difference between a Member's Quota and the IMF's
holdings of its currency is a Country's Reserve tranche position (RTP). RTP is accounted among a country's Foreign-Exchange Reserves.

Trends in External Debt:
(i) The share of concessional debt now is about 13%*.
(ii) India's debt at the end of March 2013 was ` 22,00,000 Crores*.
(iii) According to World Bank classification, among the top 15 debtor countries India stood 3rd in 2012.It
stood after china and Brazil in 2012.
(iv) As a Percentage of GDP India's external debt was 20% at the end of March 2012.

(v) Debt service ratio was declined to 6% in 2012-2013
(vi) India's Exports of Goods as a percentage of GDP (2012-13) works out to be around 25%.It
represents potential capacity of Nation to service External Debt and relatively low.

(i) Industrial Licensing:
Distillation and Brewing of Alcoholic Drinks Cigars and Cigarettes of Tobacco and manufactured tobacco substitutes

* Electronic aerospace and Defence equipment: all Industrial explosives including detonating fuses, safely fuses, gun powder, nitro cellulose & matches. Hazardous chemicals Drugs & pharmaceuticals (according to modified drug policy issued in September 1994 as amended in 1999).

(ii) Procedural Simplifications: Automatic Clearance is available for certain Project Imports the value of imported capital goods required is less than 25%of the total value of plantandMachinery
up to ` 2 Crores.
* Reduction in CRR: 4% (July 2014), SLR reduced to 22% (September 2014). Bank Rate as determined by RBI is 10.25% (September 2014).

* FDI allowed in Sectors:
Agriculture and animal husbandry mining in specified substances–100%

Asset Reconsturction companies, single brand retail trading and basic cellular services – 100%
[Note: up to 49% FDI is allowed through automatic route and above this limit FDI shall be allowed under
Government approval route, i.e getting approval from Foreign Investment Promotion Board (FIPB)]
.
Public sector banking – 20%

FDI Prohibited in certain Sectors:
Atomic Energy and Railway transport other than MRTS
Agricultural (Excluding Floriculture, Horticulture Development of seeds, Animal Husbandry, Pisciculture and Cultivation of Vegetables, mushrooms etc under controlled conditions) and

plantation activities (other than Tea plantations)
Real estate business or construction of Farm house (except development of Townships, construction of
residential/ commercial premises, roads or bridges to the extent notified in Govt notification),

*Trading in Transferable Development Rights (TDRs)

Manufacture of Cigars, Cheroots, Cigarillos and Cigarettes of tobacco and tobacco substitutes
* Fiscal Discipline: According to World bank 'Doing business Report 2014, India ranks 134 out of 189
countries due to numerous government interventions formalities and procedure.

* Lack of proper Planning: In 2013-14, the Government could auction off very small portion of its investment in the public sector, rising a little more than ` 1.5 lakh crore in the process.
The effects of Globalisation on the Indian Economy are–
1. Increase in India's share in the world Exports, to 1.7% in 2013
2. The combined share of Exports & Imports of goods increased to 45% in 2013-14.
3. In 2013-14, Current Account deficit reached to (- 1.7) of GDP.
4. Increase in Foreign Exchange Reserves, to 304 Billion US Dollars (March 2014).
5. Reduction in the rate of External Debt to, `22,00,000 crores.
The present membership of WTO is 160 countries.

**Functions of Bank: Support and Other Services – Newmethods of banking have been evolved like Automatic Telling Machine (ATM) otherwise called as Automated Banking Machine (ABM), Real Time Gross Settlement (RTGS) National Electronic Fund Transfer (NEFT).

** Urban–Bias: out of about 5.6 lakh villages in India, only 5000 were being served by commercial banks and 5 major cities (Ahmedabad, Bombay, Calcutta, Delhi and Madras) together had one– seventh share in the number of bank offices and about fifty percent share of bank deposits and bank credit. This urban biased nature of commercial banks led to slow rate of growth in the rural areas.

Neglect of agricultural sector: Agriculture accounted for only 2.2 % of the total advances.

**More Branches: . There are 1,11,723 branches of scheduled commercial banks (2012). Population per
Bank Office has reduced significantly to 12,000 (2013).
Coverage in Rural/unbanked Areas: The Percentage of Rural Branches Bank improved to about 38
per cent in June 2013.

Deposit Mobilisation: Considering state-wise deposit mobilization, Maharashtra leads all other states
and account for 22% of aggregate deposits received by banks. The aggregate deposits of scheduled commercial banks have increased to more than ` 79,30,000 crore in 2014.

**Bank Lending: Bank Lending has increased ` 60 Lakh Crores (Apr 2014), with special focus on Priority
Sectors (36% March 2013).

**Regional Imbalances: well developed banking facilities are available in Arunachal Pradesh, Jammu and
Kashmir, Uttaranchal, Manipur, Tripura on an average have lesser number of banks compared to other
states.
** Non-Performing Assets: Gross NPA's as to Gross advances have fallen from 10.5% (01-02) to
3.6% (2012-13)

(i) Bank rate policy: The Bank Rate has increased to 9% (2014)
(ii) Cash reserve ratio is 4 per cent and statutory liquidity ratio is 22 per cent for entire net demand and time liabilities of the scheduled commercial banks. (September 2014).
(iii) Repo Rate: At present, Repo rate is 8 per cent. [Sep, 2014].
(iv) Reverse Repo Rate: At present Reverse Repo rate is 7 per cent. [Seprate]